

BEFORE THE
POSTAL REGULATORY COMMISSION
WASHINGTON, D.C. 20268-0001

PERIODIC REPORTING
(PROPOSAL FIVE)

Docket No. RM2021-8

**RESPONSES OF THE UNITED STATES POSTAL SERVICE
TO QUESTIONS 1-4 OF CHAIRMAN'S INFORMATION REQUEST NO. 2**
(October 14, 2021)

The United States Postal Service hereby provides its responses to the above listed questions of Chairman's Information Request No. 2, issued October 7, 2021.

The questions are stated verbatim and followed by the response.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorney:

Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 277-6333
eric.p.koetting@usps.gov
October 14, 2021

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 2

1. Please refer to the Petition. The Postal Service states that the proposal that is the subject of the instant proceeding would have a "modest impact," shifting "roughly \$158 (000) in attributable costs from Market Dominant to Competitive [products]." Petition, Proposal Five at 5.
 - a. Please confirm that the total (air + surface) Fiscal Year (FY) 2020 international transportation costs for Negotiated Service Agreement (NSA) volumes to Canada are 2.1 times higher under the proposed methodology, compared to the total (air + surface) international transportation costs reported for NSA volumes to Canada in the FY 2020 Annual Compliance Report (ACR) docket.¹ If not confirmed, please explain.
 - b. Please confirm that the total (air + surface) FY 2020 international transportation costs for non-NSA volumes to Canada are 2.6 times higher under the proposed methodology, compared to the total (air + surface) international transportation costs reported for non-NSA volumes to Canada in the FY 2020 ACR docket.² If not confirmed, please explain.
 - c. Please confirm that the total FY 2020 *surface* international transportation costs for non-NSA volumes to Canada are 9.4 times higher under the proposed methodology, compared to the total *surface* international transportation costs calculated by the Postal Service for these volumes in the FY 2020 ACR docket, using the diversion ratios for total outbound kilograms to Canada and an estimate of surface cost per kilogram, for each "general mail category."³ Petition, Proposal Five at 3-4. If not confirmed, please explain.
 - d. Please confirm that the increase in total (air + surface) FY 2020 international transportation costs for NSA volumes to Canada, referenced in question a. above, is likely to impact the cost coverage of currently (*i.e.*, during FY 2021) active outbound international NSAs for which large

¹ See Excel file "Reports (Unified).xlsm," August 4, 2021, tab "Pivot5," cells (K451+K456+K459+K464+K467+K470+K473+K476). See also Docket No. ACR2020, Library Reference USPS-FY20-NP2, Revised February 22, 2021, Excel file "Reports (Unified).xlsm," tab "Pivot5," cells (K451+K456+K459+K464+K467+K470+K473+K476).

² See Excel file "Reports (Unified).xlsm", tab "Pivot4," cells (K10+Y10+AM10+BP10+BP11+CD10+CD11+CQ10+DS10), and tab "ICRA Database," cell Y308. See also Docket No. ACR2020, Library Reference USPS-FY20-NP2, Excel file "Reports (Unified).xlsm," tab "Pivot4," cells (K10+Y10+AM10+BP10+BP11+CD10+CD11+CQ10+DS10), and tab "ICRA Database," cell Y308.

³ See Excel file "Outbound Calcs.xlsx," August 4, 2021, tab "trnadj," cells (I48+I49). See also Docket No. ACR2020, Library Reference USPS-FY20-NP2, Revised February 22, 2021, Excel file "Outbound Calcs.xlsx," tab "trnadj," cells (J48+J49).

RESPONSE OF THE UNITED STATES POSTAL SERVICE TO CHAIRMAN'S INFORMATION REQUEST NO. 2

portions of qualifying mail volumes destinate in Canada. If not confirmed, please explain. If confirmed, please explain whether any outbound international NSA terminations filed during FY 2021 were associated with the finding that account 53281 expenses represent surface transportation costs for mail volumes to Canada, and the related increase in unit attributable costs for these volumes resulting from the instant proposal.⁴

- e. Please confirm that the increase in the total FY 2020 *surface* international transportation costs for non-NSA volumes to Canada, referenced in question c. above, is to a large degree associated with the Postal Service's finding that "account 53281 is solely for expenses incurred for transporting mail to Canada by highway," and it is to a lesser degree associated with the use of additional Foreign Postal Settlement (FPS) data.⁵ Petition, Proposal Five at 2. If not confirmed, please describe the change in *surface* transportation costs for non-NSA volumes to Canada that would have resulted solely from the use of additional FPS data.

⁴ See, e.g., Docket Nos. MC2021-55 and CP2021-57, Notice of the United States Postal Service of Termination of International Priority Airmail, Commercial ePacket, Priority Mail Express International, Priority Mail International & First-Class Package International Service Contract 10 Negotiated Service Agreement, September 24, 2021. See also Docket No. CP2020-174, Notice of the United States Postal Service of Termination of Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 3 Negotiated Service Agreement, April 20, 2021, Docket No. CP2020-263, Notice of the United States Postal Service of Termination of Priority Mail Express International, Priority Mail International, First-Class Package International Service & Commercial ePacket Contract 9 Negotiated Service Agreement, April 20, 2021, Docket No. CP2020-145, Notice of the United States Postal Service of Termination of Global Expedited Package Services – Non-Published Rates 15 Customer Contracts with Serial Numbers Ending: 0029, 0082, 0111, 0140, 0145, 0150, 0157, 0164, 0199, and 0219, April 20, 2021, Docket No. CP2020-145, Notice of the United States Postal Service of Termination of Global Expedited Package Services – Non-Published Rates 15 Customer Contracts with Serial Numbers Ending: 0009, 0021, 0024, 0027, 0032, 0033, 0041, 0047, 0052, 0058, 0059, 0069, 0072, 0079, 0081, 0100, 0103, 0107, 0112, 0113, 0116, 0126, 0133, 0138, 0146, 0152, 0156, 0158, 0163, 0165, 0172, 0173, 0178, 0198, 0200, 0203 TO 0207, AND 0217, May 17, 2021.

⁵ The Postal Service provides an example of 77 percent of outbound letter post mail categories' volumes estimated to be diverted to highway in FY 2020. Petition, Proposal Five at 4. For the ICRA products included in these letter post mail categories, the FPS data used under the instant proposal suggest that 71 to 95 percent of letter post products' volumes were diverted to highway. For the same products, calculated surface transportation costs for Canada increased between 10- and 13-fold.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

RESPONSE:

Proper interpretation of the term “modest impact” depends on the context.

One context compares the overall impact on Market Dominant and

Competitive. Another context compares international transportation cost

to Canada with total costs to Canada. Domestic processing and

settlement expenses comprise over 90 percent of total costs to Canada.

The cost increases resulting from the instant proposal are about 3 percent

for both non-NSA and NSA mail.

a. Confirmed.

b. Confirmed.

c. Confirmed.

d. Confirmed that the cost increase in part a. will likely impact the cost coverage of currently (*i.e.*, during FY 2021) active outbound international NSAs for which large portions of qualifying mail volumes destinate in Canada. No outbound international NSA terminations filed during FY 2021 were associated with the finding that account 53281 expenses represent surface transportation costs for mail volumes to Canada, or with the related increase in unit attributable costs for these volumes resulting from the instant proposal.

e. Confirmed.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

2. Please refer to Docket No. CP2021-140,⁶ Excel file "CA_Int_Trans_Calc_PMEI_PMI_FCPIS_Only_2021_03_10.xlsx," tab "04_FY20 WS14.1," cell B12. In the referenced Excel file, the Postal Service includes a note that postings for water transportation were found in account 53281. Please reconcile the Postal Service's statement that "account 53281 is solely for expenses incurred for transporting mail to Canada by highway"⁷ with the Postal Services' note from Docket No. CP2021-140, referenced above. Please specify which of the two represents a more recent finding regarding expenses recorded in account 53281.

RESPONSE:

Please see the response to Question 5 of Chairman's Information Request No. 1 filed in the instant docket on October 6, 2021:

Prior investigation had shown that, in FY 2020, there was only incidental ocean transportation expense accrued in account 53281, Canada Surface Transportation. That was the basis for the observation quoted in the question (from page 2 of the Proposal) that account 53281 is used just for expenses incurred for transporting mail to Canada by highway. Unfortunately, however, subsequent investigation into expenses for FY 2021 revealed that, this year, a more material amount of ocean transportation expense was showing up in account 53281.

That response represents a more recent finding regarding expenses recorded in account 53281.

⁶ Docket No. CP2021-140, Notice of the United States Postal Service of Filing a Functionally Equivalent Global Reseller Expedited Package 2 Negotiated Service Agreement and Application for Non-Public Treatment of Materials Filed Under Seal, September 28, 2021.

⁷ Petition, Proposal Five at 2.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

3. Please refer to Response to CHIR No. 1, question 2.b. Please provide a detailed description of the steps taken during a "cross-function...review" for international NSAs conducted by Finance and Global Business during quarterly NSA reviews, including but not limited to the monitoring of NSAs' costs. In your explanation, please describe whether cost data for individual NSAs are collected by cost segment from relevant GL accounts.

RESPONSE:

Quarterly international NSA reviews involve gathering data related to revenue and costs for each international NSA. Quarterly international NSA cost calculations begin with previous fiscal year ICM Costing Module filed as part of USPS-XX-NP2. The previous year international NSA entry level unit costs are adjusted each quarter for inflation and a contingency factor, and the adjusted unit costs are applied to the current quarter volumes and weights by customer. The weighted group settlement unit costs are calculated based on the actual settlement rate in the respective quarter with the actual volume and weight from SIRVO. PC Postage incentive payments also use quarterly actual payment amount. Cost data for individual NSAs are not collected by cost segment from relevant GL accounts. This information is compiled into a report, which is reviewed by senior leadership.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

4. Please refer to Response to CHIR No. 1, questions 3.c.-3.d. The Postal Service explains that International Logistics rules can change, and that they differ during peak and off-peak periods. Response to CHIR No. 1, question 3.c.-3.d. The Postal Service further describes the "extreme volatility of the current commercial air market," stating that continuous efforts are made to adapt to "[air] capacity [] reduction, volume change, or operational constraints," as well as to secure "surface transportation to move mail." *Id.*, question 3.d.
- a. Please confirm that FPS data, provided in Excel file "FY20 CA Sur TrnDistr Key.xlsx," August 4, 2021, includes outbound international weight that actually traveled to Canada by highway and by air in FY 2020,⁸ and not weight that would have traveled to Canada by highway and air if the International Logistics rules were followed throughout the year. If not confirmed, please explain.
 - b. Please provide examples of operational constraints that may require changes to International Logistics rules. Please be specific whether these examples of operational constraints might lead to air to surface diversions or surface to air diversions.
 - c. Please provide examples of volume changes that may require changes to International Logistics rules. Please be specific whether these examples of volume changes might lead to air to surface diversions or surface to air diversions.

RESPONSE:

- a. Confirmed that FPS data, provided in Excel file "FY20 CA Sur TrnDistr Key.xlsx," August 4, 2021, include outbound international weight that actually traveled to Canada either by highway or by air in FY 2020. FPS reflects all of the weight that traveled to Canada; there is no other weight that traveled to Canada. The International Logistics rules are used to

⁸ Which would reflect transportation modes actually employed in response to challenges such as reduction in air capacity, volume changes, operational constraints, referenced by the Postal Service in Response to CHIR No. 1, question 3.d.

**RESPONSE OF THE UNITED STATES POSTAL SERVICE TO
CHAIRMAN'S INFORMATION REQUEST NO. 2**

estimate what portion of the total weight to Canada travels by air and what portion of the total weight to Canada travels by surface. The rules defined in cells b3:e9 of each of the blue tabs in the cited Excel file are the International Logistics rules.

- b. Air to surface diversion might be due to a carrier reducing or withdrawing lift, unplanned mailer volume surge, carrier increase transportation rates lift, planned surface rotation offering more reliability in schedules than air and better rates, etc.

Surface to air diversion might be due to a shortage of drivers, increase lift offer at a good rate and reliable schedule, etc.

- c. Canada has a planned annual peak air to surface diversion for LAX and unscheduled air to surface diversion for MIA due a total withdrawal of air capacity offers from carriers out of MIA.

During the worst of the COVID impact in FY 2020, a total lack of transportation to Brazil required that an air to surface diversion be enabled.